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Emerging Market Queries in Finance and Business**Study on the relationships between institutions, governance and leadership and regional development policy in Romania****Mihai Talmaci** ^{a,*}^a „Alexandru Ioan Cuza” University Iasi, Blvd. Carol I, No. 11, Iasi, 700505, Romania

Abstract

The regional development in EU countries is strongly institutionalized and shaped by politics, strategies and financial allocations through the Structural Funds. In this context, factors such as institutional framework, regional/local leadership and quality of regional/local governance can play an important role in supporting the efforts of residents towards economic and social development and to mitigate the significant gap that separates the lagging regions to those developed. Good institutions, good governance and good leadership are considered by many authors as necessary conditions to support the development effort of a country or region. These three elements and the relationships between them fulfill the role of factors catalyzing entrepreneurial initiatives. This article aims to find an answer to several questions: "To what extent regional development is influenced by the interrelations between institutions, leadership and quality of governance and how this influence manifests itself? The low level of development of Romania's regions can be attributed to the low quality of regional governance? Can we talk about real decentralization and quality of regional governance in Romania's case? What aspects of quality of governance at regional level are important for development? To find answers to these questions we used data and information on national and regional development in EU countries, the quality of institutions and governance, from different sources: official statistics EUROSTAT, European Commission reports, scientific studies, reports of international organizations on development indexes and governance indicators.

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1. Introduction

Out of the desire to decipher the “mystery of economic growth” (Helpman 2004), the researchers of the development phenomenon have passed from the analysis of effects of some traditional variables such as: accumulation of physical and human capital, technical and technologic progress as an exogenous and endogenous variable; to the study of implications of some qualitative variables characteristic to the sociologic studies such as: institutions, governance quality, aspects of the cultural context and social capital. Some studies have shown an influence of the quality of governance and institutions on the social capital and the level of trust among citizens (Rothstein and Stolle 2003).

In the global economy each country, region or locality must demonstrate the capacity to use resources as efficiently as possible, to capitalize the opportunities offered by the extended market and to create new opportunities (Borza 2012). This depends on a determining factor “quality of institutions” (formal or informal, public or private) generically called “governance” (Stiglitz 2006, p. 57). According to Stiglitz, markets, the state, citizens and communities are the four columns which an efficient and sustainable development strategy should rely on (Stiglitz 2006, p 55).

The more and more accentuated orientation towards regional development policies, that has been initiated once with the reform of structural funds in the European Union since 1989, has raised for discussion the need for a standardized regional policy “oriented towards the firm, based on incentives and guided by the state”, substantiated on the idea that a set of common factors such as: individual rationality, the stimulation of entrepreneurship, the firm as the basic unit of an economy etc.; lied at the bottom of the economic success in many developed and developing countries (Amin, 1999).

The European effort for regional development and the regional development policies have stayed deeply rooted in the tradition of national policies, without taking into account the importance of local contexts to obtain a rapid economic growth and economic convergence (Rodriguez-Pose 2010). The top-to-bottom approach of regional development has led to the adoption of some development strategies of mimetic type, that do not take into consideration the particularities of the economic, social, institutional and regional environment. After 20 years since the reformation of EU policy, through the accentuation of interventions in regional development and the diminution of disparities, studies on the results of EU development policy have led to contradictory results.

2. Relationship between institutions – leadership - governance – regional development. An theoretical approach

In the literature there are few studies that address the influence of regional institutions and governance on the development of regions and localities. This problem can be studied and tackled more easily in an national context, or in the context of federal nations (USA, Germany, Canada), which have an higher degree of decentralization of authorities and various levels of government, making it difficult to address in the context of countries with a high level of centralization (most EU countries) (Danson and Whittam 1997), among which Romania. However, given the trend in the European Union to address the issues of development policies and strategies at sub-national levels (regional or local), there is a process of slow transfer of administrative authority to the regions and municipalities. In these circumstances, we must consider the influence that the quality of institutions and regional governance may have on the development process.

The problem of the influence of institutions and governance on welfare and quality of life, has been studied and discussed in the context of several cross-country studies. Thus, there is a consensus among economists of growth and development and policymakers in terms of the preliminary character of good institution and governance on sustainable development (Kaufmann et al. 2008, Knack 2003).

Econometric analyses confirm the important role of institutions in the promotion of economic growth. In a

study on growth determiners, authors Rodrik et al. (2004) highlight the priority character of institution quality demonstrating that institutions have a direct effect on income. Adequate, efficient and solid institutions have an influence on the investments in research & development, innovations, technologic progress and entrepreneurial initiatives, aspects that contribute to the increase of total productivity of factors and, implicitly, to the increase of salaries and the remuneration of capitals (Porter 2001).

Feng (2003) believes that the empirical evidence on the link between institutions, quality of governance, the political regime and economic growth (development) is still ambiguous. Studies conducted reveal different aspects of the quality of governance that have an influence on growth and development: ensuring and safety of property rights (Knack and Keefer 1995 Alessina 1998), corruption (Mauro 1995 Alessina 1998, Kaufmann et al. 2008), efficiency of bureaucracy (Alessina 1998, Kaufmann et al. 2008), the rule of law (Alessina 1998 Kaufmann et al. 2008), factors related to political regime (reducing political instability, political certainty and increasing political freedom - Feng 2003, Kaufmann et al. 2008)

Many of the authors that have analysed the connection between institutions and economic growth, sustain that institutional arrangements developed locally or regionally operate better than the national ones and allow localities or regions to fit into the path of sustainable economic development (Rodriguez-Pose 2010, Amin & Thrift 1995, Amin 1999).

In a model of regional development that takes into account the role of institutions, leadership and governance quality, they may be regarded as intervention variables that may stimulate or inhibit the action of the economic and social actors for development and influence the total efficiency of factor use. The three elements and the relationships between them fulfill the role of factors catalyzing entrepreneurial initiatives for the more effective and efficacious use of factorial endowment of the region, either by putting the opportunities appearing in the market to good use, or by creating new opportunities that may contribute to the improvement of the competitive position of regional economies (Figure 1).

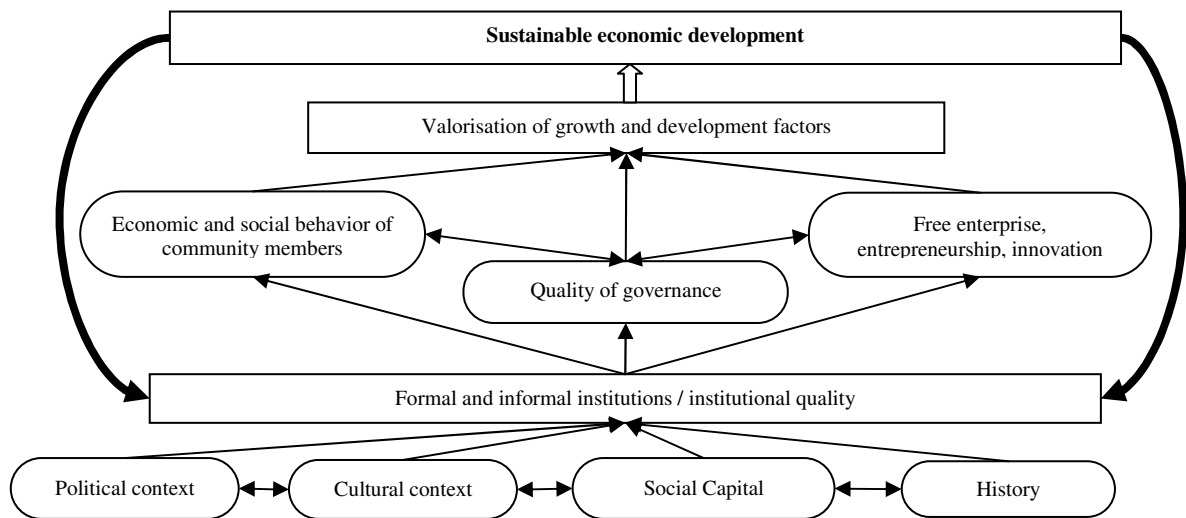


Fig 1 Relation between institutions, QOG, economic performance and development

The performances of regional or local economies are influenced by the relationship between leadership and institutions, the efficiency and effectiveness of their action in the mobilization of entrepreneurial initiatives and the use of production factors (labour, capital, natural resources, knowledge, technical and technologic progress). The strong and proactive leadership (with an adequate view in terms of the future of the development

of the regional economy) associated to the corresponding institutions sustains the initiation of some development strategies and policies that might lead to the increase of the regional life standard (Stimson et al. 2002). The relationship between the leadership quality and institutions left its mark upon governance quality and implicitly upon the capacity of regional economic and social actors to use the opportunities emerging in the global markets and to create new opportunities by means of entrepreneurial initiatives.

3. Data and methodology

To achieve the research objectives were used as study methods: the documentary study and document analysis (content analysis), in combination with quantitative and qualitative analysis of data and information from various sources. To assess the influence and the relationship between institutions, quality of regional governance and economic development we used data and information on regional economic development and the quality of institutions and governance in EU countries and Romanian development regions, from different sources: official statistics (Eurostat), European Commission reports, scientific studies, reports of international organizations on development indexes and governance indicators.

To highlight the link between the quality of regional governance and regional economic development in Romania, has been used as tool the Pearson correlation coefficient. Thus, were calculated the correlation coefficients between the values of the aggregate index of regional governance quality and the three sub-indices components (Quality of public services, Impartiality of public services and Corruption Index) for the 8 development regions of Romania, taken from the report „Measuring the Quality of Government and Subnational variation” (2010), and the values of three indicators of regional economic development: GDP per capita and regional competitiveness index taken from official documents EUROSTAT and HDI - values calculated under the new methodology used from 2010 onwards.

Although aggregate governance quality index (WGI) built by the World Bank in 1996 (Kaufmann et. al. 2008) encompasses the values of several sub-indices calculated at national level (the freedom of expression and the Governmental Responsibility, The Political stability and the absence of violence, the Governmental efficacy, the quality of Regulations / legal framework, the rule of law, and the Corruption control), they can't be calculated for the regional level, due the particularities of the territorial and administrative organization of the EU countries. Most of the countries do not have regions with a high degree of autonomy, decision-making authority and regional institutions with full decision-making power. Thus, can't be calculated regional values for all sub-indices, because there are no notable regional differences in terms of political stability and government effectiveness (as long as there are no parliaments, nor regional governments), rule of law and quality of legal framework. This may be considered a limitation of the research due to unavailability of data necessary to determine the values of all sub-indices WGI.

A second limitation of the research is that the 8 development regions of Romania have a low degree of autonomy of decision, do not have their own institutions, they mainly role is to harmonize statistical reporting with EUROSTAT rules. Thus, we can't speak of quality of regional governance in the true sense.

4. Influences of governance quality on the regional development of Romania

According the report for EU Comision „Measuring the Quality of Government and Subnational variation” (University of Gothenburg 2010), Romania fall into the group of countries lacking of governance quality, most of them formerly socialist countries, joined by Greece and Italy. As Dani Kaufmann stated, the poor quality of governance and corruption are not only characteristic to the poorly developed countries and regions or young democracies (Rothstein 2009). According to the report, Romania occupies the last place among the 27 EU countries in terms of the aggregated index of governance quality.

The regionalization process of Romanian territory, initiated under Law 151/1998, has led to the creation of

the eight development regions, constituted by the voluntary association of the counties. They are relatively homogenous as size and population, excepting the Bucharest-Ilfov region, which has a much smaller area. But they didn't have legal personality and administrative capacity. Given the tumultuous history of the regionalization process (which experienced many reforms in history) and rather weak regionalist traditions of Romania, the current process of regionalization can be perceived as artificial and forced one, the result of imposed solutions, but necessary, in the context of integration into EU structures.

Although the law provides that the 8 development regions have an important role in the design, implementation and evaluation of regional development policies, as well in gathering statistical data, in accordance with European regulations issued by EUROSTAT for the second level of territorial classification, their role is rather to align to EUROSTAT statistical reporting rules. In order to carry out the role of design, implementation and evaluation of development policies is needed legal and administrative capacity, regional institutions and regional leadership able to coordinate and to gather stakeholder efforts, towards achieving higher levels of welfare and quality of life of community members.

Given the long period of centralization of decisions that Romania has experienced, the process of defining the macro-regions and development regions was done by "top to down" method, without consulting the communities, by "voluntary" association of a variable number of counties, taking into account the main criterion of neighborhood, rather than the criterion of homogeneity (economic, social, cultural, historical).

In Romania the autonomy level in adopting decisions on regional development is very low, since there are no regional organisations or institutions having decisional powers. Central authorities maintain a strong influence and control over the regional and local authorities. Moreover, the local public authorities manifest certain inertia in the decisional process, sometimes waiting for the central authorities to take the responsibility for the adoption of decisions. Thus, we may speak of a poor leadership at the level of local authorities and a quasi-inexistent leadership at the level of the development region. In these conditions, could we speak of regional development, decentralization in adopting the development strategies and policies, adequate and efficient institutions at regional level and quality of regional governance? Of course not.

Most Romanian development regions (except the north-western region) are characterized by levels of governance quality below EU27 average occupying the second half of the classification of development regions depending on the governance quality (Table 1).

Table 1 Regional QoG scores in Romania and Macroeconomic development indicators Romania

	North West	Center	North East	South East	South	Bucharest	South West	West
QoG Score	0,22	-0,24	-0,69	-0,71	-0,44	-1,67	-0,14	-0,94
Quality of public services	1,63	1,04	1,31	1,39	1,09	0,52	1,95	1,08
Impartiality of public services	0,38	0,02	-0,22	-0,67	0,02	-1,02	-0,07	-0,73
Corruption	-0,75	-1,13	-1,65	-1,78	-1,10	-2,30	-1,13	-1,61
GDP/inhab (EUR)	10.400	11.200	7.200	9.700	9.800	28.300	9.100	12.700
Competitiveness Index	20	15	16	12	18	47	13	19
GDP/inhab. % in EU average	40	42	27	34	34	92	33	48
Human Development Index	0,752	0,760	0,726	0,740	0,744	0,840	0,742	0,766

Data source: „Measuring the Quality of Government and Subnational variation” 2010, Eurostat, E -Joint Research Centre and DG Regional Policy 2010

Except the North-Western region, all the other development regions register negative values of the

aggregated index for governance quality. The most serious situation is registered in terms of the corruption level which is very high in all regions.

Quite surprisingly, the most developed region Bucharest-Ilfov registers the lowest level of quality of governance of all Romanian development regions. One explanation could be the excessive centralization of the political, economic and legal authorities at the level of this region, the maintenance of the centralized system for adoption of decisions and the deficiencies regarding the clear separation of attributions and authority of the public power entities. Another characteristic of the quality of governance at regional level in Romania is the high level of interregional variance of QoG being surpassed only by Italy. The level of governance quality is overestimated in case of some development regions registering weak economic performances and underestimated in some regions having good economic performances.

The data from table 2 show that the connection between governance quality and economic development highlighted in case of the EU member states is not valid in case of the Romanian development regions. Thus, Pearson's correlation coefficients between the values of the 4 indices of regional governance and the values of development regional indicators (GDP/inhabitant and Regional competitiveness index) have negative values ranging between -0.5 and -1. Thus, we may say that in case of the Romanian development regions, the connection between governance quality and economic development is a quite strong and inverse one. The regions having a higher development level (Bucharest, West) have a very low level of quality of governance. But the data must be interpreted with caution since the Romanian development regions do not have a legal personality and the decentralization level of decisional authorities is much reduced so that we cannot speak of quality of regional governance in the true sense of the word.

Table 2. Pearson correlation coefficients between governance quality indicators and indicators of regional development in Romania

	GDP/inhab	Regional Competitiveness Index	HDI
Regional QoG Score	-0,76	-0,72	-0,71
Quality of regional public services	-0,74	-0,73	-0,74
Impartiality of regional public services	-0,65	-0,53	-0,60
Corruption in regional public services	-0,67	-0,61	-0,60

Source: Own calculations based on data from table 1

As for the quality of governance in the EU regions, we may notice that all regions from the countries having the highest performances in terms of governance quality (Denmark, Sweden and the Netherlands) are among the first 15% most developed regions. Most EU15 regions are in the first half of classification (except for Greece and Portugal and several regions from France and Italy). Most regions from the former socialist countries are in the second half of classification, except for the North-Western region of Romania, having a level of governance quality above the European average.

According to experts, the determining factors of a high quality of governance are:

- the existence of a free press that might report the power abuses and corruption actions (especially at the high level – political and governmental circles).
- the existence of some strong and active organisations of the civil society (NGOs, or professional organizations).
- the region's degree of economic openness expressed by the importance of market liberalization;
- a high level of ethnical and cultural homogeneity that favours social interactions at diverse levels between the community members and ethnical fragmentation would lead to a lower quality of governance. The opinions of the experts from three European regions characterized by ethnical diversity (North West, Jihozapad – the

Czech republic and Bolzano - Italy) contradict this hypothesis arguing that the spirit of tolerance and collaboration between the diverse ethnical groups, developed by the prolonged contact of the population of different nationalities. Moreover, there is a higher pressure for the diminution of corruption and control in the selection of public servants on impartial and meritocratic criteria.

- a key factor for the improvement of institutional quality and governance quality is the adoption of the meritocratic system of selection of public servants and the fight against the politicization attempts. The extent to which the merit and not the political allegiance or the allegiance to another social group prevail and is compensated in the public organizations has a higher importance than factors such as the political system or the electoral regime. The experts involved into the study of governance quality initiated by the European Commission have shown that regions having a governance quality above average have systems of civil services more meritocratic than those with poor performances.

5. Conclusions

Although many cross-country studies in the literature highlights the direct and strong link between the quality of institutions and governance and the welfare of the country, there are few studies about this relationship of dependency at the level of the development regions (NUTS2). This link is elusive given that many of the EU countries recorded lower degree of decentralization of administrative authority to this level. The problem is more difficult to address in the Romania's case, which experienced a long period of excessive centralization of authority, therefore the 8 regions have not established any administrative capacity, or ability to make decisions that lead to economic growth and social welfare. This may be an important limitation of the research, because we cannot speak of regional governance, while the developing regions of Romania have no administrative powers.

The recent debates on regional policy in Romania have been moved in the plane of "redrawing" development regions, we believe that the most important and pressing issue is the delegation of institutional and administrative authority to the regional level, to give them the strength necessary to implement the development policies, plans and strategies. In these circumstances it is necessary to adopt measures that ensure to development regions a high degree of institutional and administrative autonomy, so that they acquire the ability to make decisions that will lead to increase welfare and to catching up. Romania's poor performances in the application of regional development policies and plans and in absorption of grants from structural funds, could stem from a lack of interim administrative links, able to govern the specific problems of development regions and to provide a link between the existing levels of government (which have democratically elected administrative bodies): central / state, county (NUTS 3) and local (Nuts5).

Most of Romanian development regions are characterized by low levels of governance quality, a fact that might explain the reduced level of development and the low competitiveness of regional economies. In case of the Romanian development regions, the connection between the governance quality and economic development is quite strong and inverse one. Unexpectedly the regions having a higher development level (Bucharest, West) have a very low quality of governance. The data must be interpreted with caution since the Romanian development regions do not have a legal personality so that we cannot speak of quality of regional governance in the true sense of the word.

A series of measures are necessary to increase the quality of regional governance and to improve the capacity of organisations and institutions from the regional level to implement the development strategies and policies: the real decentralization of authorities; the efficient and efficacious monitoring of the activity of public institutions and organizations by the implication and collaboration between media, the organizations of the civil society and the resident population; the adoption of the meritocratic system in the selection of public servants and the fight against the politicization attempts; the reduction of corruption by the separation of the administration from politicians' interference; actions for the increase of the social capital and the level of trust

etc.

Another limitation of the research, resulting from the first, is the lack of data from official sources on the quality of governance in the development regions of the EU and of a suitable set of indicators able to measure the quality of governance at this level.

As future research directions, we consider would be useful to conduct a comparative study on the experiences and progress of EU countries in the decentralization of administrative authorities, in more than 20 years of reform of regional policy and its implications for regional development, from which to draw lessons and to identify appropriate actions and tools for improving regional and local government in Romania. It is also useful to identify new factors that contribute to the quality of regional governance, new indicators and indices that contribute to a better quantification of governance quality.

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